TFSA Users: How to Earn $140 a Week in Tax-Free Income

Description

The Tax-Free Savings Account (TFSA) was introduced by the former minister of finance Jim Flaherty on January 1, 2009. Canadians have had over a decade to acclimate themselves to this flexible and dynamic savings account. Unfortunately, many Canadians are not using the TFSA to its full potential.

It is tempting to gun for growth in a TFSA, especially for those with a long time horizon. There is also the balanced route; investors can target stocks that have a good dividend history while achieving solid capital growth. Today, I want to explore how investors can scoop up over $140 per week in tax-free income by using their cumulative TFSA room of $63,5000. Let's dive in and find out how!

Build an income juggernaut

The best way to construct an income-oriented TFSA is to target dividend stocks with strong balance sheets. **Arc Resources** (TSX:ARX) certainly fits the bill. The Calgary-based oil and gas producer has seen its stock fall 13.9% in 2019 as of close on November 7. However, the stock has shot up after the release of its third-quarter 2019 results this week.

Arc Resources reported funds from operations of $145 million, or $0.41 per share, which fell year over year primarily due to weaker commodity prices. As at September 30, 2019, the company boasted a net debt to annualized funds from operations (FFO) ratio of 1.3 times. Its FFO is still more than enough to cover the $53.1 million it paid in dividends in the period.

Let's get back to our hypothetical. Arc Resources currently boasts a 9.2% dividend yield, with a monthly payout of $0.05 per share. If an investor were to add 3,300 shares of Arc Resources to their TFSA at $6.47 per share, that would net them monthly tax-free income of $165.

Vermilion Energy (TSX:VET)(NYSE:VET) is another Calgary-based oil and gas producer. It does not boast the balance sheet of Arc Resources, but it does possess a sky-high yield. Shares of Vermilion have dropped 24% in 2019 as of close on November 7.

Production bounced back in France in the third quarter but Vermilion still reported a 6% quarter-over-quarter decline. It attributed this to unplanned downtime, weather delays, and plant turnarounds. Fund flows from operations fell 3% from Q2 to $216 million, or $1.39 per share. Vermilion reiterated that it still has strong funds flow, and that it is committed to dividend protection in 2020. Nonetheless, investors should watch its earnings closely as we move towards the new year.

Back to building our income-oriented portfolio… Vermilion offers a monthly dividend payout of $0.23 per share right now. The purchase of 1,100 shares of Vermilion at its last closing price of $19.80 would net an investor $253 per month in their TFSA.

Freehold Royalties (TSX:FRU) specifically aims to provide low-risk returns and growth to its shareholders. The company is an income beast, but its growth potential is limited. Shares of Freehold have dropped 11.8% in 2019 as of close on November 7.

Investors can take solace in Freehold's excellent balance sheet. In the second quarter, Freehold reported funds from operations of $30.1 million, or $0.25 per share. This more than covers its current dividend levels of $0.1575 over a three-month period. Freehold declared a monthly dividend of $0.0525 in October, representing a tasty 9.3% yield.

If an investor were to purchase 3,000 shares of Freehold at its last closing price of $6.77 per share, that would net them $157.50 per month in tax-free income. When we add up our total investment, that brings our TFSA contribution to $63,441, just under the max threshold. It also nets us $575.50 in monthly tax-free income, which works out to $143 per week.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:ARX (ARC Resources Ltd.)
3. TSX:FRU (Freehold Royalties Ltd.)
4. TSX:VET (Vermilion Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/21

Date Created
2019/11/09
Author
aocallaghan